

Message Text

UNCLASSIFIED

PAGE 01 OTTAWA 01069 161814Z

50

ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 SP-03 AID-20 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 PA-04 PRS-01 USIA-15 FSE-00 ABF-01

DRC-01 /167 W

----- 084338

P 161729Z APR 74

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC PRIORITY 3191

UNCLAS OTTAWA 1069

E.O. 11652: N/A

TAGS: EFIN, CA

SUBJECT: REACTION TO BANK RATE INCREASE.

REF : OTTAWA 1068

BEGIN SUMMARY - MOST MAJOR CHARTERED BANKS REACTED TO YESTERDAY'S INCREASE IN BANK RATE BY HIKING PRIME RATES TO UNPRECEDENTED LEVEL OF 10.5 PERCENT. PARLIAMENTARY OPPOSITION QUESTIONED WISDOM OF MOVE AND FINANCE MINISTER URGED THAT BANKS CONTINUE TO GIVE PREFERENTIAL RATES TO SMALL BUSINESS AND LESS DEVELOPED AREAS. EDITORIAL WRITERS CITED NEED FOR MORE COMPREHENSIVE ANTI-INFLATION PROGRAM THAN RELYING MERELY ON STRICTER MONETARY POLICY. END SUMMARY

1. FIVE OF CANADA'S TEN CHARTERED BANKS REACTED TO THE APRIL 15 ONE PERCENTAGE POINT INCREASE IN BANK RATE TO A RECORD 8.25 PERCENT BY RAISING THEIR PRIME RATES BY ONE PERCENTAGE POINT TO A RECORD 10.5 PERCENT. THREE OF THE FOUR LARGEST CHARTERED BANKS PARTICIPATED IN THE PRIME RATE HIKE WITH ONLY THE SECOND LARGEST (CANADIAN IMPERIAL BANK OF COMMERCE) LIMITING ITSELF TO A ONE HALF POINT RISE TO
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 OTTAWA 01069 161814Z

10 PERCENT. OTHER BANKS ARE EXPECTED TO ANNOUNCE

INCREASES SHORTLY. BANK ECONOMISTS WERE QUOTED BY THE PRESS AS SAYING THAT TWO DIGIT INTEREST RATES WILL BE IN EFFECT THROUGH THE REMAINDER OF 1974. IT WAS ESTIMATED THAT THE INTEREST RATE IMPACT ON THE ECONOMY COULD TAKE SIX MONTHS TO HAVE AN EFFECT AND IF PRICES CONTINUE TO RISE AT THE RATE THEY HAVE IN RECENT MONTHS (IN FEBRUARY AND MARCH THE CPI ROSE AT ANNUAL RATES OF 13 PERCENT) INTEREST RATES COULD GO HIGHER STILL.

2. IN THE HOUSE OF COMMONS, OPPOSITION FINANCE CRITIC JAMES GILLIES (P.C. - ONTARIO) SAID THE BANK RATE HIKE WOULD RESULT IN MORE INFLATION. CITING BANK OF CANADA GOVERNOR BOUEY'S REMARKS (REFTEL), GILLIES DECLARED THAT IT WAS CONTRADICTORY FOR THE GOVERNMENT TO SAY THAT THE RISE IN INTEREST RATES WAS NECESSARY TO SLOW DOWN MONETARY GROWTH WHILE AT THE SAME TIME CLAIMING THAT MONEY SUPPLY WOULD EXPAND AT A SUFFICIENT RATE TO ACCOMMODATE EXPANSION OF THE ECONOMY. OUTSIDE THE HOUSE, GILLIES TOLD REPORTERS THAT IF THE INTERNATIONAL SITUATION IS CAUSING INTEREST RATES TO RISE IN CANADA (AS ALLUDED TO BY FINANCE MINISTER TURNER AND BOUEY), SOME FORM OF CAPITAL CONTROLS OR INTEREST EQUALIZATION TAX SHOULD BE EMPLOYED TO ISOLATE THE CANADIAN CAPITAL MARKET AND KEEP INTEREST RATES DOWN. AN NDP SPOKESMAN MAINTAINED THAT THE INCREASE IN BANK RATE WOULD NOT HAVE MUCH EFFECT ON CORPORATIONS BECAUSE THEY GENERATE THEIR OWN CAPITAL, BUT WILL HAVE SOME EFFECT ON CONSUMERS, FARMERS, SMALL BUSINESSMEN AND HOMEBUILDERS. IN REPLY, TURNER REPEATED EARLIER REQUESTS THAT THE CHARTER BANKS LEND AT PREFERENTIAL RATES TO SMALL BUSINESSMEN, FISHERMEN AND IN SLOW-GROWTH REGIONS.

3. THE U.S. DOLLAR WEAKENED ON FOREIGN EXCHANGE MARKET APRIL 15. INTER BANK QUOTE OF C\$0.9694 WAS DOWN C\$0.0024 FROM PREVIOUS TRADING DAY AND MARKED ONLY THE THIRD TIME IN RECENT YEARS THAT THE U.S. DOLLAR WAS QUOTED AT LESS THAN 97 CANADIAN CENTS.

4. IN EDITORIAL REACTION, THE TORONTO GLOBE AND MAIL NOTED THAT THE RATE INCREASE WAS IN PART A UNCLASSIFIED

UNCLASSIFIED

PAGE 03 OTTAWA 01069 161814Z

RESPONSE TO THE INVESTMENT BOOM'S LARGE DEMAND FOR CREDIT. WHILE STATING THAT THE MAJOR CAUSE OF INFLATION COMES FROM ABROAD, THE EDITORIAL DECLARED "AT HOME, A PRIME CAUSE OF INFLATION IS MINORITY GOVERNMENT, WEAK GOVERNMENT. NEW DEMOCRATIC LEADER DAVID LEWIS HAS KEPT THE GOVERNMENT IN POWER, BUT ON HIS TERMS. WHILE HE HAS SAID THE LIBERALS SHOULD FIGHT INFLATION, HE HAS INSISTED ON PROGRAMS THAT INCREASES SPENDING WHICH

INCREASED INFLATION... WHAT IT BOILS DOWN TO IS THAT
THERE MUST BE A REDUCED DEMAND ON THE FINANCIAL
MARKET... A DELICATE BALANCE MUST BE STRUCK WHICH WILL
ALLOW THE NECESSARY GROWTH WITHOUT ADDING INFLATIONARY
DEMANDS TO THE ECONOMY. MUCH OF THIS, UNFORTUNATELY, IS
THEORETICAL IN A SITUATION OF WEAK GOVERNMENT."

5. THE MONTREAL GAZETTE NOTES THE DIFFICULTIES CAUSED BY
REGIONAL DISPARITIES IN APPLYING PRIME RATE INCREASES AS
AN ANTI-INFLATION TOOL. THE EDITORIAL CONCLUDES "RATE CHANGES
SHOULD BE PART OF A LARGER ANTI-INFLATION POLICY WHICH
INCLUDES PRICE AND INCOME RESTRAINT."
PORTER

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: LESS DEVELOPED COUNTRIES, PRESS COMMENTS, INTEREST RATES, BANK LOANS, CURRENCY CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 16 APR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974OTTAWA01069
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740087-0915
From: OTTAWA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740440/aaaabjff.tel
Line Count: 128
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: OTTAWA 1068
Review Action: RELEASED, APPROVED
Review Authority: shawdg
Review Comment: n/a
Review Content Flags:
Review Date: 04 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04 SEP 2002 by BryanSD>; APPROVED <26 DEC 2002 by shawdg>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: REACTION TO BANK RATE INCREASE.
TAGS: EFIN, CA
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005